

Message Text

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PAGE 01 PARIS 28491 312044Z

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 IO-10 AGR-05 /100 W

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R 312031Z OCT 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 4785

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E.O. 11652: N/A

TAGS: EFIN, IBRD, IMF, FR

SUBJECT: FRENCH VIEWS ON DEVELOPMENT SECURITY

REF: STATE 221319; B. STATE 253644

1. BAQUIAST, OFFICE DIRECTOR FOR INTERNATIONAL FINANCIAL ORGANIZATIONS AT FRENCH TREASURY TOOK OCCASSION OF EMBOFF'S CALL PER INSTRUCTIONS REF. B TO OUTLINE FRENCH POSITION ON ENTIRE DEVELOPMENT SECURITY QUESTION. ALTHOUGH MUCH OF THIS IS UNDOUBTEDLY KNOWN AT DEPARTMENT AND TREASURY, WE ARE REPEATING SUBSTANCE OF HIS REMARKS, BY SUBJECT.

2. COMPENSATORY FINANCING FACILITY. BAQUIAST NOTED THAT U.S. PROPOSALS WERE NOT ENTIRELY NEW AND THAT GOF HAD ALREADY PROPOSED SIMILAR LIBERALIZATION, INCLUDING

A. RAISE ANNUAL LIMIT FROM 25 TO 50 PERCENT OF QUOTA (ON CONDITIONS "SIMILAR TO U.S.")

B. RAISE CUMULATIVE LIMIT FROM 50 TO 75 PERCENT OF QUOTA

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PAGE 02 PARIS 28491 312044Z

C. RAISE COMBINED LIMIT OF COMPENSATORY FINANCING
AND BUFFER STOCK FACILITIES TO 100 PERCENT

ON COMPUTATION OF COMPENSABLE SHORTFALL, BAQUIAST NOTED THAT WHILE GOF HAD AT ONE TIME PROPOSED INCREASE IN EXPORT FORECAST LIMIT TO 15 PERCENT, PRESENT GOF THINKING IS THAT THIS MECHANISM SHOULD BE ABOLISHED OR LOOSENED VERY MUCH MORE. IDEALLY, COMPENSATION SHOULD BE MADE ON BASIS OF FUTURE TENDENCY FORECAST, WHATEVER THIS TENDENCY IS, RATHER THAN CLAMPING ARBITRARY LIMITS ON IT. LIMITS SHOULD BE CONFINED TO QUOTAS. GOF WAS ALSO WILLING TO INCLUDE INVISIBLES IN EXPORT COMPENSATION, BUT OPPOSED INCLUSION OF VARIATIONS IN IMPORT COSTS. GOF BACKED FUND PROPOSALS ON RECLASSIFICATION OF FACILITY DRAWINGS TO REGULAR FUND DRAWINGS.

3. TRUST FUND. "A PRIORI", GOF DOES NOT EXCLUDE ANY PROPOSED USE OF TRUST FUND, BAQUIAST NOTED. HE THEN WENT ON TO RESTATE FAMILIAR FRENCH RESERVATION THAT USE OF GOLD-SALE MECHANISM WILL SO REDUCE PRICE OF GOLD THAT ITS BENEFITS WILL BE FAR LESS THAN EXPECTED.

4. COMPENSATORY FINANCING VERSUS PRICE STABILIZATION. BAQUIAST DEVELOPED FRENCH ARGUMENTS FAVORING LATTER OVER FORMER.

A. COMPENSATORY FINANCING IS A LOAN, NOT A "REAL RECEIPT" WHICH IS WHAT IS NEEDED. LOANS, IN GOF VIEW, SHOULD BE USED FOR PROJECTS WHICH GENERATE MEANS OF REPAYMENT.

B. COMPENSATORY FINANCING IS EX POST RELIEF. IT IS BETTER TO ESTABLISH JUST PRICES THAN TO PLACE HEAVY WEIGHT ON CREDIT TO COMPENSATE UNJUST ONES.

C. THERE ARE TWIN DANGERS THAT EITHER COMPENSATORY FINANCING CREDIT WILL BE SPARSELY USED AND LDC'S WILL SUFFER, OR THEY WILL BE HEAVILY DRAWN ON WITH CONSEQUENSAL POSSIBILITY OF DEFAULTS ON REPAYMENT.

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PAGE 03 PARIS 28491 312044Z

5. RESERVATIONS ABOUT THE PROLIFERATION OF MECHANISMS. ACCORDING TO BAQUIAST, NEW DEVELOPMENT SECURITY AGENCY PROPOSED IN SECRETARY'S U.N.G.A. SPEECH COULD AMOUNT TO A NEW PARALLEL ORGANISATION ONLY THEORETICALLY WITHIN IMF. GOF IS AGAINST IDEA OF A NEW FACILITY.

6. TACTICS. GOF DOES NOT EXPECT THAT MUCH CAN BE ACCOMPLISHED IN IMF CONTEXT BEFORE NORTH-SOUTH

DIALOGUE PROGRESSES MUCH FURTHER.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, EXPORTS, LESS DEVELOPED COUNTRIES, FINANCIAL STABILITY, EARNINGS, LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975PARIS28491
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750379-0752
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975101/aaaaaamx.tel
Line Count: 117
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 221319, 75 STATE 253644
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 23 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 MAY 2003 by CunninFX>; APPROVED <09 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRENCH VIEWS ON DEVELOPMENT SECURITY
TAGS: EFIN, FR, IBRD, IMF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006